

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application) DOCKET NO. 06-035-163
Of Rocky Mountain Power for)
A Deferred Accounting Order)
To Defer the Costs of Loans)
Made to Grid West)

In the Matter of the Application) DOCKET NO. 07-035-04
Of Rocky Mountain Power for)
An Accounting Order To Defer)
The Costs Related to the)
MidAmerican Energy Holdings)
Company Transaction)

In the Matter of the Application) DOCKET NO. 07-035-14
Of Rocky Mountain Power for)
An Accounting Order for Costs)
Related to the Flooding of the)
Powerdale Hydro Facility)

SURREBUTTAL TESTIMONY OF
DONNA DERONNE
FOR THE COMMITTEE OF
CONSUMER SERVICES

October 22, 2007

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1 **Introduction**

2 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3 A. My name is Donna DeRonne. I am a Certified Public Accountant licensed
4 in the State of Michigan and a senior regulatory analyst at Larkin &
5 Associates, PLLC, Certified Public Accountants, with offices at 15728
6 Farmington Road, Livonia, Michigan 48154.

7

8 **Q. ARE YOU THE SAME DONNA DERONNE WHO PREVIOUSLY**
9 **OFFERED PRE-FILED DIRECT AND REBUTTAL TESTIMONIES IN**
10 **THIS CASE?**

11 A. Yes, I am.

12

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. The purpose of my surrebuttal testimony is to address three issues raised
15 in Rocky Mountain Power (RMP) witness Mr. Jeffrey Larsen's rebuttal
16 testimony filed on October 1, 2007. The three issues include:

17 (1) The claim that the deferral requests in this case are comparable to
18 prior amortizations adopted by the Commission in Docket No. 99-035-10;

19 (2) The assertion that no current period expenses are being pushed
20 into the next rate case; and

21 (3) The notion that intergenerational inequity would result from the
22 deferral of recovery of the Powerdale Plant decommission costs until such
23 time that the costs are actually incurred.

24

25 **Comparison of Deferral Requests to Previously Approved**26 **Amortizations**

27 **Q. PLEASE DESCRIBE MR. LARSEN'S COMPARISON OF THE**
28 **CURRENT DEFERRED ACCOUNTING ORDER REQUESTS WITH THE**
29 **AMORTIZATIONS APPROVED BY THE COMMISSION IN PRIOR RATE**
30 **CASES.**

31 A. In several places in his rebuttal testimony, Mr. Larsen attempts to liken the
32 deferred accounting order requests under consideration in the current
33 proceeding with certain amortizations approved by the Commission in
34 Docket No. 99-035-10. Apparently RMP is relying on the Decision in
35 Docket No. 99-035-10, at least in part, as support for its request for
36 deferred accounting orders in this case.

37 Mr. Larsen indicates that he does not agree an event must always
38 be unforeseen in order to qualify for deferred accounting treatment. He
39 indicates, on page 2, beginning at line 30: "In addition Y2K expenditures,
40 costs associated with the Noell Kempf Climate Action Project, re-
41 engineering costs, and the Glenrock Mine Closure costs, all of which were
42 not unforeseen, were ordered deferred with three to five year amortization
43 periods by the Utah Commission in Docket 99-035-10."

44 Later in his rebuttal testimony, when addressing the Division of
45 Public Utilities' (Division) recommended materiality threshold, Mr. Larsen
46 indicates that eligibility for a deferred accounting order should be based on

47 the non-recurring or unusual nature of an event or transaction, as opposed
48 to monetary level. At page 3 of his rebuttal testimony, beginning at line
49 67, Mr. Larsen states as follows:

50 Prior orders of the Commission approving deferred accounting,
51 such as for Noell Kempf Climate Action Project, which was less
52 than \$2 million on a total Company basis and less than \$1 million
53 allocated to Utah, have established a very modest materiality
54 threshold. Each of the three deferrals currently before the
55 Commission exceeds the levels employed by the Commission in
56 Docket No. 99-035-10. Under Mr. Thompson's proposed criteria,
57 none of the items deferred by the Commission in that docket would
58 qualify for deferred accounting treatment.
59
60

61 **Q. IN YOUR OPINION ARE MR. LARSEN'S COMPARISONS OF THE**
62 **COMMISSION'S DECISION IN DOCKET NO. 99-035-10 TO THE**
63 **DEFERRED ACCOUNTING ORDER REQUESTS IN THIS CASE**
64 **VALID?**

65 A. No, they are not. The costs associated with the items which the
66 Commission approved for amortization in Docket No. 99-035-10 were
67 incurred and recorded, at least in part, on PacifiCorp's books during the
68 historical test year utilized in the case. At that time, rates were set based
69 on a historical twelve-month period. Since the costs for items such as the
70 Noell Kempf Climate Action Project, the re-engineering costs and the Y2K
71 expenses were non-recurring in nature, parties had recommended that the
72 costs be either removed or amortized so that a normalized level of costs
73 would be included in rates going forward. They were not the subject of a

74 deferred accounting order that was requested between rate case
75 proceedings.

76 For the Noell Kempf Climate Action Project, 44% of the total
77 project costs were expensed on PacifiCorp's books during the historical
78 test year in that rate case. For the Y2K costs, the Company had
79 expended \$10.3 million in the test year and the Division and Committee
80 both recommended amortization of the costs to mitigate the effects of the
81 one-time expense which occurred during the test year. Likewise, the re-
82 engineering costs were of a non-recurring nature that were incurred and
83 recorded during the historical test year in the case and the Commission
84 adopted a five-year amortization of the costs. With regards to the
85 Glenrock reclamation costs, the Company had begun the reclamation and
86 incurred related expenditures during the test year. The Commission
87 determined the reclamation costs should be amortized over a five-year
88 period.

89 Thus, for each of the four items approved for amortization in Docket
90 No. 99-035-10, all or part of the costs were actually incurred and recorded
91 during the historical test year. These were either non-recurring or unique
92 costs that fell within a historical test year that were being normalized or
93 amortized for purposes of determining rates going forward. Mr. Larsen's
94 attempt to liken the Commission's approved amortization of these non-
95 recurring cost items that were incurred during a historical test year does

96 not result in a valid comparison to the costs the Company is seeking to
97 defer in the current case.

98

99 **Q. WOULD YOU PLEASE ELABORATE FURTHER ON THE**
100 **MATERIALITY ISSUE RAISED BY MR. LARSEN IN HIS**
101 **COMPARISONS TO DOCKET NO. 99-035-10?**

102 A. Yes. Again, the costs he identified from Docket No. 99-035-10 as having
103 monetary thresholds that are less than those requested by the Company
104 in the current case were associated with costs that were incurred during
105 the historical test year. This differs substantially from costs incurred or
106 recorded between rate cases in which the Company is seeking special
107 treatment and consideration through a request for deferred accounting
108 order.

109

110 **Current Period Expenses**

111 **Q. WHEN ADDRESSING THE NOTION OF RETROACTIVE RATEMAKING**
112 **AT PAGE 16 OF HIS REBUTTAL TESTIMONY, BEGINNING AT LINE**
113 **356, MR. LARSEN STATES: “FURTHERMORE, BECAUSE**
114 **AMORTIZATION OF THE COSTS WILL OCCUR DURING THE**
115 **CURRENT RATE EFFECTIVE PERIOD, NO CURRENT PERIOD**
116 **EXPENSES ARE BEING PUSHED IN TO THE NEXT RATE CASE.” IN**
117 **YOUR OPINION, IS THIS A CORRECT STATEMENT?**

118 A. No, it is not. Absent the Company's request for deferred accounting
119 orders costs relating to severance, the Grid West loan and the
120 unrecovered Powerdale investment would be expensed or written-off on
121 the Company's books in the current period or a previous accounting
122 period. If the deferred accounting treatment requested by the Company is
123 approved, then some portion of current period expenses will in fact be
124 "pushed into the next rate case."

125

126 **Intergenerational Inequity**

127 **Q. IN SEVERAL PLACES IN HIS REBUTTAL TESTIMONY, MR. LARSEN**
128 **CONTENDS THAT THE COMMITTEE HAS NOT CONSIDERED THE**
129 **IMPORTANCE OF INTERGENERATIONAL EQUITY IN FORMULATING**
130 **THEIR RECOMMENDATION ON POWERALE DECOMMISSIONING**
131 **COSTS. WOULD YOU PLEASE ADDRESS THIS ISSUE?**

132 A. The Powerdale hydro facility is no longer being used to serve customers;
133 thus, no matter what the outcome of this case regarding the timing of the
134 recovery of the decommissioning costs, some intergenerational equity
135 issues will exist. As pointed out in my direct testimony, there are other
136 factors that should be considered as regards the Powerdale Hydro facility
137 costs. At page 28 of my pre-filed direct testimony, I identified potential
138 offsets to the decommissioning costs, including the property insurance
139 payments to be received, the transfer of reusable plant assets to other
140 Company hydro facilities, the potential conveyance of interest in lands to

141 third parties, future tax benefits derived from conveyance of land, and
142 salvage value for equipment. Deferral of recovery from ratepayers until
143 such time as the costs are incurred would allow for recovery to be based
144 on actual costs and would allow for more certainty of potential cost
145 offsets. While I agree intergenerational equity is an important factor to
146 consider, there are other factors that should also be considered when
147 evaluating the appropriate period for the recovery of costs.

148

149 **Q. ARE THERE ANY EXAMPLES IN THE COMPANY'S REQUEST IN**
150 **THESE DOCKETS WHERE INTERGENERATIONAL INEQUITIES**
151 **ARISE?**

152 A. If one were to adhere to a strict intergenerational equity perspective, one
153 should also consider the fact that the employees to which the severance
154 payments have been made for which the Company is seeking deferral for
155 future recovery are no longer providing service to the Company's
156 customers. Under the Company's request, the future customers would
157 essentially be paying severance costs associated with employees who no
158 longer provide service to them.

159

160 **Q. DOES THIS COMPLETE YOUR PREFILED**
161 **SURREBUTTAL TESTIMONY?**

162 A. Yes.